PHILIPPINE INDUSTRIAL DEVELOPMENT: STRATEGIES IN THE EIGHTIES

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I. INTRODUCTION

Industry plays a very important role in our economic development for the 1980's. While the development of agriculture is the main focus of the 1978-1987 development plan, it has to be borne in mind that, under the present situation, about 600,000 enter the labor force every year. If we have to consider that as of now, more than 50 percent of our population is dependent on agriculture compared to only 3 percent for both U.S. and UK, millions of workers will be released from agriculture if it becomes more efficient. Industry must be able to absorb this increasing number.

Industries with advanced technologies and high levels of productivity were seen to be the source of very rapid growth in the industrialized countries, including our East Asian neighbors. As labor productivity improves in industry, displaced labor must be absorbed elsewhere.

II. INDUSTRIAL DEVELOPMENT IN 1950's AND NOW

In the early 1950's when our very progressive Asian neighbors were very much behind us, Philippine industry accelerated at a rapid pace. Visible signs of such progress are evident. Within a very short time, due to import controls, we saw the emergence of food processing plants, flour mills, drug factories, pulp and paper plants, machinery manufacturing, and many other types of industries.

The pioneering spirit of the Filipino industrialist and his agressiveness in spite of the high degree of risks and competition resulted in the rapid industrialization of the country. During that period, too, we saw the rise of a new group of entrepreneurs in various industrial fields. This momentum of growth in industry, however, has not been maintained.

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Unfortunately during the period, we locked ourselves into an inward-oriented, import-substituting and excessively over-protected framework, through the instruments of banning and high tariff walls.

I must remind you that import substitution is not bad, as shown by Japan, South Korea and Taiwan especially during the early stages of industrialization. However, it must be selective, giving priority to products whose costs are competitive or where there is a great potential for export.

Presently, the unprecedented balance of trade, balance of payments and government budgetary deficits have continued to plague the economy. The ₱11.9 billion budgetary deficit for the first nine months of 1982 is expected to rise to about ₱14 billion at year end, the biggest in our history. Unfortunately, these large deficits did not result in a higher economic growth (2.9 percent up to the first nine months of 1982 versus 4.1 percent for the corresponding period of 1981).

The balance of payments, as mentioned by Prime Minister Virata, may reach $1.0 billion for 1982.

Our balance of trade situation is primarily the result of the global recession characterized by dwindling prices of our exports and our huge allocation of imports for energy (about $2 billion) and capital goods (another $2 billion).

The declining growth rate of our manufacturing sector, from 6.7 percent to 5.3 percent in 1981, should be arrested. I am glad that in the 1983-1987 plan, it is projected to increase to 7.7 percent. How to achieve this under the present situation is not easy.

Compared to our ASEAN neighbors, our economic growth rate of 5.8 percent from 1978 to 1981 is the lowest. Similarly, our per capita GNP growth rate of 3.1 percent is the lowest.

III. PROBLEMS OF THE INDUSTRY

The problems of industry are divided into two areas: internal and external. Internal problems are those which are controllable by the business enterprises themselves and external problems are those which the government should direct their attention to.

Some of the internal problems are:

1. Inadequate capacity utilization
2. Financial inadequacy

3. Poor technology
4. Lack of managerial skills
5. Poor productivity

And some of the external problems are:

1. Tariff inequities
2. Custom administration
3. Credit
4. Graft and corruption
5. Infrastructure such as power, communication and transportation
6. Government bureaucracy

In the PDCP Survey for business performance released on November 1982, respondents have indicated that the major problems they face are the following:

1. Market demand
2. Prices
3. High import costs
4. Government regulations
5. High borrowing costs
6. Brownouts

It is quite disappointing to note that in this same survey, only 27.9 percent of the respondents indicated that 1983 would be better for the manufacturing sector and the rest indicated that 1983 will be worse, same as 1982 or uncertain.

IV. INDUSTRIAL STRATEGIES

The objectives of the Industry Plan for 1983-1987 have been indicated as follows:

1. To establish world competitive industries, and
2. To upgrade the capability and competitiveness of existing ones.

The growth of the Industrial Sectors seeks to achieve:

1. Accelerated employment generation
2. Increased foreign exchange earnings, particularly nontraditional exports
3. Self-sufficiency in basic commodities, particularly food

4. Decreasing reliance on imported oil as an energy source, and
5. Distribution of the benefits of industrialization through the dispersal of industries.

The main industrial strategy for the Plan period, 1983-1987, is the implementation of the following:

1. Eleven major industrial projects
2. Investment promotion
3. Industrial restructuring
4. Regional dispersal of industries
5. Assistance to small and medium scale industries
6. Export promotion measures
7. ASEAN regional economic cooperation

Let me now briefly give my thoughts on some of these strategies.

Eleven Major Industrial Projects

The implementation of most of the major industrial projects is laudable. However, on the basis of current developments in the world market, it would be appropriate to review the following:

1. Integrated Steel Mill

This project should be pursued totally only if the products could be cost-competitive with those of Japan which has economies of scale and modern technology. If it is to be protected by a minimum 20 percent tariff duty, plus a 10 percent tax (as is currently being done), then it will not spur the development of engineering industries which are dependent on steel.

2. Heavy engineering industries

While the objective is very laudable, it must be borne in mind that a vertical integration approach as envisioned in the proposed Bataan Complex may not serve the best interest of the sector. A modification of this project may be to set up a good Basic Facilities Center, comprising of foundry, forging, metal forming, machining, heat treatment, and other facilities which can cater to the thousands of manufacturing and fabrication shops now existing or to be established. This Center should encourage the establishment of such shops around it, forming an Engineering Industrial Estate. There will be maximum capacity utilization of facilities, better quality of products and lower overhead costs. Even the Diesel Engine Project can be part of the Estate.

3. Petrochemical Complex

Information has it that Saudi Arabia is constructing a bigger petrochemical complex. With raw materials within their midst, their venture may be far more competitive than our proposed project. I understand that this project is now under careful review; hence, its implementation may be postponed.

Investment Promotion

I have divided this strategy on investment promotion into the following areas:

1. Exports
2. Investment Priority Plan (IPP)
3. Progressive Manufacturing Programs
4. Foreign Investments
5. Investment Incentives

I will now discuss my thoughts in these areas.

1. Exports

The program on export promotion is very laudable. In order to further accelerate exports, let me give the following suggestions:

a. *Export Procedures*

The eighth Philippine Business Conference concluded last month recommended the establishment of a one-stop shop, which the President approved. Perhaps, the ultimate objective is to have the one-stop shop concept handled by the commercial banking system.

Cumbersome export procedures such as securing various clearances from agencies like the Product Standards Agency, the PITC (for exports to socialist countries), CB (for detailed costings) and other government agencies should be minimized. In addition, cumbersome duty-drawback procedures for reexported products such as requiring clearances from NIST and BOI can be eliminated. Our export procedure should be easy and simple, with the goal of achieving exports in 24 hours.

b. *Incentive System*

The incentive system for exports should not be limited only to export producers and service exporters, but must be broad enough to cover all types of exports. It takes time and resources for one to register as an export producer or service exporter; in spite of this we would like to encourage a large number of manufacturers to export.

c. *Standard Duty-Drawback*

As pointed out, one of the stumbling blocks for exporters is that they are not able to claim duties and taxes which they pay for the raw materials they use for the products they export. Only registered export producers and service exporters are allowed to do so. Even for such registered producers as exporters, procedures for justifying every duty-drawback are very cumbersome and almost impossible to undertake, especially when you have 50 suppliers or subcontractors for a particular product. Because of this problem, the President, heeding the complaints of exporters, issued a Letter of Instruction allowing the Standard Duty-Drawback System. Unfortunately, up to now, after more than two years, with IMF experts trying to help us, we have yet to see this implemented. This recommendation can be implemented immediately provided there is an administrative procedure for the system. Alternatively, a minimum across-the-board standard duty-drawback can be established for various industries, and if producers think that their duty-drawback is higher, then higher drawbacks may be allowed, if properly justified.

d. *Export Processing Zones*

The program on the establishment of export processing zones is good. Such zones should have adequate infrastructure and communications, and bureaucracy should be reduced to the barest minimum. Present export processing zones, however, are too general in scope, covering all kinds of industries, from labor-intensive to capital-intensive industries. We suggest that zones be made to cater to the same technological family, where complementation and technology services can be facilitated, leading to horizontal integration or subcontracting.

2. Investments Priority Plans

One of the means by which investment promotions are translated into programs is the approval of an Investment Priority Plan (IPP) which is updated on a yearly basis.

While the sectoral approach has been adopted in drawing up the Investments Priority Plan, it has always followed the product approach, with the exception of agricultural services which list down priorities for the rendering of services for the production of agricultural products.

In order to give true meaning to horizontal integration, economic or specialty subcontracting should be promoted through the listing of primary or intermediate services for the production of industrial goods. For example, basic metalworking facilities, such as foundry, forging, machining, heat treatment, presswork, etc., can be evaluated for inclusion in the IPP.

Inclusion in the IPP should be carefully evaluated against comparative costs with others in the international market. For example, in the case of small gasoline engines listed in the IPP, many industrialized countries with bigger volumes have stopped manufacturing them due to competition from the U.S. and Japan. When it is a product needed for the use of other capital goods, and where its viability is dependent on protective tariff, then it must be reevaluated.

It is also very important to consider technology obsolescence.

The present practice of using actively economic analysis, together with market, technical and financial analysis, should be continued.

Following the objectives of the Industrial Plan which are to increase employment, earn foreign exchange, attain self-sufficiency in basic commodities, and decrease reliance on imported oil, I would like to add that the following products or industries should also be given priority:

1. Local raw material-oriented, resource-based industries, such as agricultural, mineral, forestry, fishery, etc.
2. Skills-oriented industries where Filipinos can excel, such as Electrical/Electronics, Engineering, etc.
3. Intermediate technology industries which are being phased out by industrialized countries or which have a good R & D base in the Philippines.
4. Labor-intensive industries, due to our abundant labor
5. Export-oriented industries
6. Energy-related industries, due to our high energy imports
7. Capital goods, due to our high import costs of about $2 billion annually, which can provide a base for export to Third World countries and for subcontracting to industrialized countries.
8. Industries utilizing modern technologies, such as biotechnology, genetic engineering, material advances, etc.

3. Progressive Manufacturing Programs

Another area through which investments are promoted is the formulation and implementation of Progressive Manufacturing Programs such as:

a. Progressive Car Manufacturing Program (PCMP)
b. Progressive Truck Manufacturing Program (PTMP)
c. Progressive Motorcycle Manufacturing Program (PMMP)
d. Progressive Electronic Manufacturing Program (PEMP)
e. Diesel Manufacturing Program

The main objectives of these programs are to save foreign exchange through a local content or deletion program, earn foreign exchange and encourage technology transfer to other industries.

Some major facilities have been set up for these manufacturing programs. It was expected that the benefits of technology transfer would encourage the setting up of new projects, especially in engineering industries. Unfortunately, this did not come about due to the many problems previously mentioned. Considering the so-called colonial mentality of Filipinos (i.e., their preference for foreign rather than local goods) and the inequities in tariff structures, it might be appropriate to pursue a progressive manufacturing program for other products in engineering industries, such as agricultural machinery and equipment and industrial machinery. It must be noted that our capital goods imports run into more than $2 billion per year. With these programs, substantial savings in imports can be attained, plus providing a base for export. Progressive local content or increasing deletion can be imposed. As long as every importer or distributor is required the same degree of local content or deletion, he will be compelled to go into manufacturing. It must be pointed out that the degree of local content should not unduly increase costs.

4. Foreign Investments

The government's policy to attract foreign investments should continue, not only to augment investment funds but also to provide technology transfer. It is not enough that our investment incentives are attractive. Infrastructure, such as transportation and communications facilities and reliable power, must also be provided. In addition, bureaucracy must be minimized.

While we are attracting foreigners, let us lure back Filipino investments abroad for use in our agriculture and industry. The nonmerchandise trade account registered a net outflow of $659 million despite the earnings of tourism and labor export. Perhaps, the return of our own Filipino investments abroad will help us a lot.

5. Investment Incentives

As early as September 1980, during the sixth Philippine Business Conference, it was requested that our Incentives Code be reviewed. We are glad that BOI has already submitted amendments to the Batasan only recently. I was not able to secure a copy of the amendments, but I read in the newspaper that the recommendations are for a shift to performance orientation.

I would like to offer the following comments on our incentives:

1. They are biased in favor of capital-intensive projects, and are vertically integrated, due to duty and tax-free credits for the purchase of capital good.
2. They are biased against horizontal integration, or maximization of capacity utilization through subcontracting arrangements to specialty firms. The Code grants no incentive to firms who subcontract their jobs, except for export.
3. They discriminate against local manufacturers of machinery as they allow duty and tax-free importation, whereas for locally produced goods they only allow tax credits.
4. They are biased against labor-intensive industries. Since one of our goals is to accelerate employment generation, labor-intensive firms should be allowed additional deduction of labor from taxable income which can be equivalent to depreciation had machinery been used.
5. Incentives for nonpioneer industries are practically meaningless unless they are capital-intensive.

Industrial Restructuring

The industrial restructuring program being undertaken on a sectoral basis should not only be continued but be accelerated. Restructuring should be instituted not only through the mechanism of tariff reforms and deregulation. Substantially reducing tariff rates for finished products without having the corresponding decrease in tariff for raw materials is not fair to local manufacturers, especially when they pay very high interest rates, power costs and other production and overhead costs.

Imposing a tariff duty of 20 percent for steel, which is the mother of many industries, while imposing a tariff rate of 10 percent for many capital goods, will not make local manufacturing viable.

We concur with the concept of having a minimum tariff rate for raw materials, average rates for intermediate products, and maximum rates for finished products.

Smuggling, whether physical or technical, must be curtailed.

Regional Dispersal of Industries

The program on dispersal of industries should be further improved. Even the program for encouraging industries to locate outside the 50-km distance from Manila cannot be effectively implemented due to inadequate infrastructure support like transportation, communications, power and water.

The incentives must be substantial to offset the disadvantages of moving out of Manila.

The setting up of sectoral industrial estates must be encouraged.

Assistance to Cottage, Small and Medium Scale Industries (CSMI)

The programs for cottage, small and medium scale industries (CSMIs) under the Plan are good. In addition, a stronger link between CSMIs and large-scale industries must be developed, through changes in the investment incentives to allow subcontracting. Financing programs should be increased and technology transfer should be intensified through the increase of industrial extension workers.

Other Programs

In addition to the various strategies and programs indicated in the foregoing, the following are suggested:

1. Improvement of the administrative machinery in all phases of government.
2. Segmentation of the various industrial sectors into subsectors and products, so that plans and program outputs could be measured.
3. Implementation of massive productivity programs for industry and other sectors in order to be competitive in both the domestic and international market. Towards this end, the First Multisectoral Congress on Productivity held on October 15-16, 1982 in conjunction with the Eighth Philippine Business Conference identified and discussed the following issues affecting productivity:
   a. Infrastructure and communications
   b. Economic and fiscal measures
   c. Productivity information
   d. Sharing the gains of productivity
   e. Productivity consciousness
   f. Lack of proper skills
   g. Technology transfer, and
   h. Research and development.
4. Closer cooperation between government and private sector, especially in the planning and implementation process.
5. Shortening the gap between planning and implementation,

for time is a very important resource of management. If we have to solve our economic difficulties, we have to accelerate our moves and actions.